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NATIONAL DAIRY PRODUCTS CORPORATION

ANNUAL REPORT 1961

ANNUAL MEETING: The Annual Meeting of the stockholders of National Dairy Products Corporation will be held on Thursday, April 19, 1962, at 11 a.m. at The Statler Hilton Hotel, 33rd Street and Seventh Avenue, New York City. A formal notice of the meeting, together with proxy statement and proxy form, will be mailed to each stockholder on or about March 23, at which time proxies will be requested for use at this meeting.

National Dairy Products Corporation

Annual Report 1961

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A Meeting of Your Board of Directors

Directors

*Beginning at left, clockwise
around the table:*

EDGAR N. BRAWNER
*General Manager, Washington, D. C.
District, Sealtest Foods Div.*

HERBERT HUMPHREYS
Chairman, Humko Products Div.

DR. C. R. ROBERTS*†
*Vice-President;
President, Sealtest Foods Div.*

RICHARD C. BOND
*President, John Wanamaker
Philadelphia, Incorporated*

PAUL C. CABOT*†
*Partner, State Street Research
and Management Co., Boston*

SIDNEY J. WEINBERG*†
*Partner, Goldman, Sachs & Co.
New York*

ROBERT S. GORDON*
Vice-President & Gen. Counsel

J. HUBER WETENHALL*†
President

E. E. STEWART
Former Chairman of the Board

GEORGE H. RUTHERFORD†
*Vice-President
Chairman, Finance Committee*

HENRY W. BREYER, JR.*†
*President, Breyer Corporation,
Investments, Philadelphia*

J. CLYDE LOFTIS*†
*Vice-President;
President, Kraft Foods Div.*

WALTER N. THAYER†
*President, Whitney Communications
Corporation, New York*

DAVID L. LUKE*
*President, West Virginia Pulp
and Paper Company, New York*

PHILIP D. REED†
*Former Chairman of the Board,
General Electric Co., New York*

EMANUEL M. TERNER
President, Metro Glass Div.†

CLYDE H. SHAFFER
*Vice-President, Sealtest Foods Div.;
President, Breyer Ice Cream Div.*

*Member, Executive Committee

†Member, Finance Committee

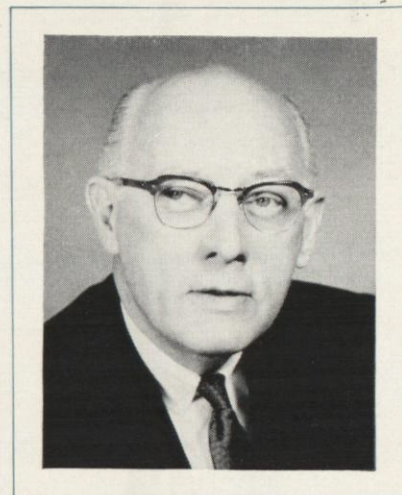
To Our Stockholders

This Annual Report for 1961, which covers the many activities of the Company during the year which has passed will, I trust, give you a better understanding of the great and diversified food company which National Dairy has become.

To this end, the photographs shown in the center spread will be particularly interesting because of the wide variety of the product lines displayed. It was possible to include on these few pages only some of our many hundreds of consumer products, but those that are pictured—as well as those that are not shown—offer a wide choice to the family shopper. It was impossible, however, to include the numerous products which are especially produced and distributed to restaurants, hotels, and other types of food businesses; nor could we show those products made in our processing plants and chemical operations which have specialized uses in other industries. But even with this limitation of space, I am confident that these color pages will demonstrate that National Dairy is “A Great Name In Food.”

Our business in all of these product lines is discussed at length in this Report as are other highlights of 1961, such as the record established in world-wide sales and product shipments—the investment in plant and equipment—the new developments in our research program—and the expansion in our International operations providing new facilities in growing overseas markets.

I hope that this Annual Report will make you more familiar with the business of the Company and, at the same time, convey both our desire and ability to continue in this ever-changing world to better satisfy the needs of those whom National Dairy serves.



A stylized, handwritten signature in dark ink, appearing to read "Hubert H. Hall". The signature is fluid and cursive, with a large initial 'H'.

President

Highlights Of Operations

	<u>1961</u>	<u>1960</u>
Net Sales	\$1,790,834,000	\$1,667,176,000
Net Profit	\$ 50,211,000	\$ 50,667,000
Per Share	\$ 3.51	\$ 3.59
Per Dollar of Sales	2.80%	3.04%
Federal and Foreign Taxes on Income	\$ 51,315,000	\$ 51,280,000
Per Share	\$ 3.59	\$ 3.63
Dividends to Shareholders	\$ 28,536,000	\$ 28,177,000
Per Share	\$ 2.00	\$ 2.00
Capital Expenditures	\$ 51,327,000	\$ 44,425,000
Depreciation	\$ 34,378,000	\$ 32,771,000
Working Capital	\$ 214,457,000	\$ 209,244,000
Stockholders' Equity (Excluding Intangibles)	\$ 445,901,000	\$ 420,454,000
Number of Stockholders	69,993	69,940

Report of Management

Nineteen-Sixty-One was an eventful year for National Dairy. It was a year in which world-wide sales reached a new peak while earnings, though slightly under the record high of 1960, once again exceeded the 50-million-dollar mark. It was a year in which we processed and distributed more food products at home and abroad than at any previous time.

It was a year in which National Dairy broadened and deepened its market coverage which today reaches across the United States, Canada, the British Isles, much of Western Europe, and Australia. It was a year in which we were alert to fundamental changes in the world economies, such as in the rapidly emerging Common Market in Europe, where our existing facilities provide a sound base for present and future service. Throughout the year, we sought to maintain a flexibility in the business which would enable us to grasp these growing opportunities.

SALES

In 1961, the total sales of our Domestic and International business exceeded a billion-and-three-quarters dollars for the first time. These sales amounted to \$1,790,834,000, increasing 7.4%, for a substantial rise of \$123,658,000 over 1960. Overseas sales excluding Canada were \$140,148,000, an increase of \$19,914,000 for the year.

All of our principal product lines made a contribution to this growth in sales, which surpassed the previous year's total for the seventh consecutive time. Sales in the United States, Canada, and

overseas benefited as we continued to expand our operations; introduce new and improved products; increase capacity for production and distribution; and build market demand and brand franchises through aggressive merchandising programs.

EARNINGS

Net earnings for the year totaled \$50,211,000, as compared with \$50,667,000 earned in 1960. Earnings per share were \$3.51 on the larger number of shares outstanding, which totaled 14,302,362 at the end of 1961, as against \$3.59 per share earned on the 14,112,213 shares outstanding in 1960.

The lower earnings for the year were characteristic of the narrower margins which prevailed in many businesses in 1961. In our business, we were able to meet this problem as it related to operating expenses, which were kept well in hand throughout the year. However, in terms of material costs — which increased last year partly because of rising price supports — the higher prices we had to pay for raw product could not be fully offset in selling prices in the marketplace.

Total expenditures for raw materials, which reached \$1,009,404,000, reflected higher prices and the greater level of operations for the year. Wages and salaries amounted to \$272,159,000; services and supplies, \$190,017,000; other charges—including packaging, repairs and maintenance, depreciation and interest—were \$204,091,000; while total taxes amounted to \$72,087,000, or \$5.04 per share.

DIVIDENDS

During 1961—the 38th consecutive year of quarterly dividends—our stockholders received the record total of \$28,536,000 in dividends. At the end of the year, the Company had 69,993 shareowners, including 67,300 individual stockholders and 2,693 institutional investors, such as financial agencies, insurance companies, mutual and pension funds, universities and charitable organizations.

FINANCIAL POSITION

The Company continued to maintain a sound financial position. Working capital totaled \$214,457,000 at the year-end. Property, plant and equipment, less depreciation, amounted to

\$317,799,000, while total assets were \$726,173,000. Long-term debt, excluding amounts due currently, was \$81,808,000. Stockholders' equity was \$445,901,000, an increase of \$25,447,000, and equaled at the year-end \$31.18 per share as against \$29.79 per share in 1960.

At the meeting of the Board of Directors on March 1, 1962, initial authorizations were given for a proposed issue of long-term sinking fund debentures in the principal amount of \$35,000,000, the net proceeds of which would be added to the general funds of the Company.

BUILDING FOR GROWTH

During 1961, National Dairy continued its world-wide program of investment for new plants and equipment, and the necessary additions and replacements to production and distribution facilities.

We continued to modernize plants, realign sales branches, and in general, moved toward larger manufacturing and distribution centers of greater capacity and flexibility. Thus, we sought to provide even faster and more economical and dependable service to the trade, and achieved greater coverage in important marketing centers in this country and overseas.

For the Sealtest Foods Division, a new Milk processing plant was opened at Florence, S. C. Construction was begun for the substantial remodeling and modernization of the Sealtest Milk plant at Cleveland, O.; and for an addition to our Milk plant at Lansing, Mich. Sealtest sales and distribution branches were opened during the year at Chicopee, Mass., New Haven and Waterford, Conn.; Paoli, Pa.; and Columbus, O.; while

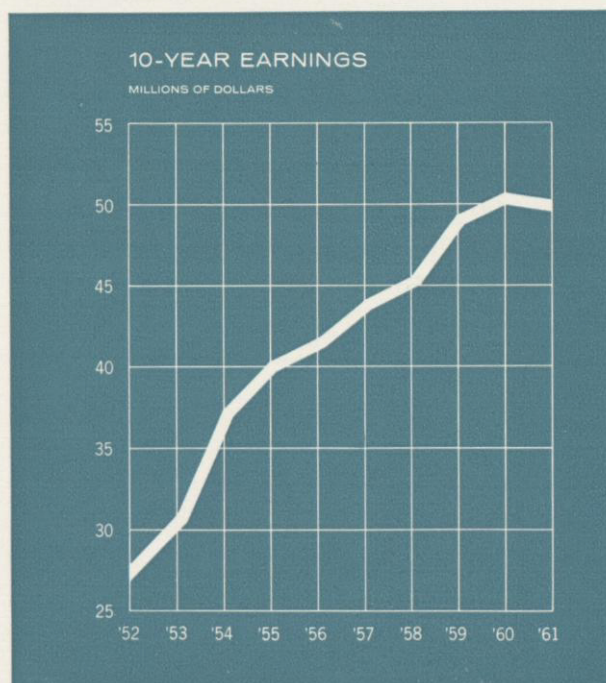


other branches were under construction at Flint, Mich. and Warminster, Pa.

For the Kraft Foods Division and its operations in the United States, a new addition was completed to its large plant at Decatur, Ga.; and construction work was continued on the new Confections plant at Kendallville, Ind. which, when completed, will provide excellent facilities and sufficient capacity for our rapidly expanding lines of candies. An addition also was under way at the Springfield, Mo. plant to handle more efficiently the distribution of the wide variety of Kraft products manufactured there. An interesting development at this location was the leasing of a large natural underground cave for Cheese storage. A new sales and distribution branch was completed for Kraft at Omaha, Neb., and another was started at Miami, Fla.

For the overseas operations of Kraft Foods, last year witnessed new additions to our principal European plants. New construction at the Liverpool plant increased capacity and strengthened the Company's services to the markets of England, Scotland and Ireland; while enlargement of the plant located near Hamburg, West Germany, expanded our ability to serve that country and other areas of Central Europe. At the same time, we built another extension to the large plant at Melbourne—which distributes throughout Australia and adjacent territories—and additions were also made to bulk cheese plants operated at other locations in that country.

All of these major overseas operations have been expanded repeatedly, resulting in large plants and distribution centers comparable in size and efficiency to our facilities in the United States and Canada.



For the Breakstone Foods Division, construction was well-advanced on another substantial addition to the Walton, N.Y. plant to provide more capacity for the production of Cottage Cheese and other dairy specialties. Plans were virtually completed at the year-end to equip another manufacturing plant for this Division at Hagerstown, Md.; while property was purchased near Boston as the site for a new distribution branch to broaden Breakstone's service in the markets of the New England states.

For the Humko Products Division, a major remodeling project was finished at our Memphis, Tenn. refinery involving both building construction and the installation of new equipment, to expand and modernize our facilities to refine basic materials and for carrying out other operations

involved in the manufacture of Edible Oils and Shortening.

For the Metro Glass Division, construction was completed on a large addition to the glass plant at Dolton, Ill. near Chicago, with two new furnaces and other modern facilities which are designed to substantially increase its capacity to serve its industrial customers in the Middle West.

We expect that capital expenditures, which amounted to more than \$51,000,000 last year, will be moderately exceeded in 1962 under a budget already approved by your Board of Directors. This capital expenditures program is directed toward the continued expansion and better utilization of plant, equipment, and man-

power, which are so important to operating margins.

INTERNATIONAL EXPANSION

As demand for our products in other countries grew, we increased our International operations last year by acquiring five new businesses. These new ventures include:

— *Dominion Dairies Limited*, an important Milk and Ice Cream business in Canada, serving the leading markets in the Provinces of Ontario and Quebec. Operating as part of the Sealtest Foods Division, Dominion Dairies has added a number of Sealtest products to the brands it distributes in Canada.

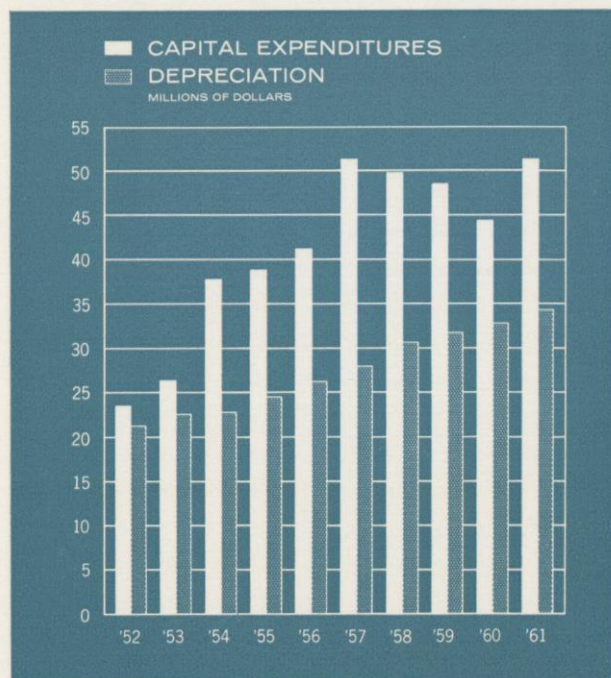
— *The Southern Oil Company Limited*, of Manchester, England, a substantial processor of Vegetable Oils and Shortening, distributed under its own brands and also supplied to our own operations in England, as well as to other manufacturers of food products in that country.

— *Green's Products Limited*, a canner and distributor of Tuna and Salmon in Australia. Located near Sydney, it processes at two canneries the off-shore catch and distributes the product throughout the area.

— *Dewcrisp Products Limited*, an Australian processor of dehydrated, frozen and canned Vegetables, located at Scottsdale, Tasmania.

— *Erste Deutsche Knackebrotwerke*, a bakery business located at Karlsruhe, that distributes a specialty line of crisp Rye Bread in Germany.

The last four businesses have been combined with the operations of Kraft Foods in those countries.



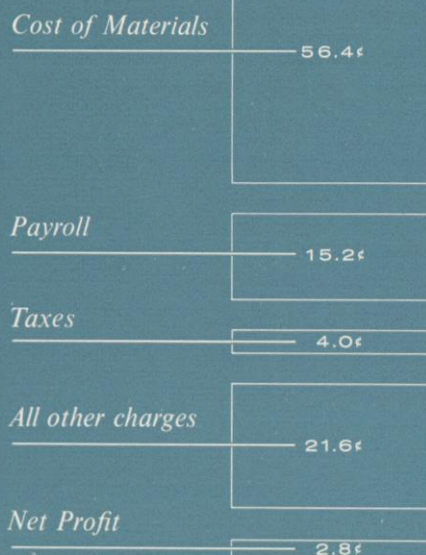
PRODUCT AND MARKET DEVELOPMENT

Many new and improved products were developed last year in our program to create processed foods of maximum desirability to the consumer and favorable return to the Company. We moved ahead on a broad front—here and abroad—in product research and quality control; raw material supply; production efficiency; advertising and merchandising effectiveness; and customer and consumer services.

Throughout, we worked toward closer coordination of product development and marketing activities, seeking to generate continued progress in the introduction of new and improved products for the three main classifications of customers in the great market for food. These customer classifications are: Consumer Customers — reached through a wide range of retail food stores in many countries, and by home delivery of dairy products in many of our markets . . . Food-Service Customers —reached through restaurants, cafeterias, and numerous other types of eating establishments . . . and Commercial Customers—covering a broad spectrum of other businesses and industries which use many of our products in the formulation, processing and manufacture of their own products. For all these customers, we introduced some products for the first time; and concurrently, we brought out many of our established products in new flavors, forms, sizes, and packaging for which market surveys have revealed growing needs and desires.

— *For Consumer Customers*, we introduced to the nation's grocery shelves several new Kraft Confections, including the highly successful "Bag

How the 1961 Sales dollar was divided



O' Treats", a candy in six popular flavors; and at the same time, we went into a number of markets with Chocolate-Coated Marshmallows and Caramels, and started national distribution of Colored and Flavored Marshmallows in large and bite-size forms. We also brought into national markets several new Kraft Salad Dressings; a new Macaroni and Cheese DeLuxe Dinner; a new DeLuxe Corn Oil Margarine; and new flavors in Dessert Toppings and Barbecue Sauce. To the nation's dairy cases, we introduced Kraft's Whipped Cream Cheese in a newly-designed, zip-opening aluminum container; and several new varieties of Natural Cheese in stick form; as well as Processed

Cheeses and Cheese Foods in easy-to-open, reusable tumblers and jars.

Into our international operations we continued to introduce some of the major Kraft products which we have successfully marketed in the United States. During 1961, for example, we brought the new Macaroni and Cheese DeLuxe Dinner, and Ready-to-Serve Cheese Dips into Canada . . . Cracker Barrel Brand Cheese, and Jellies and Preserves into England . . . Philadelphia Cream Cheese, and Spaghetti Dinner into Germany . . . and Salad Dressings and new varieties of packaged Cheese into Australia. At the same time, our overseas operations increased their distribution and added to the lines of those products which they make to satisfy the consumer tastes of their markets.

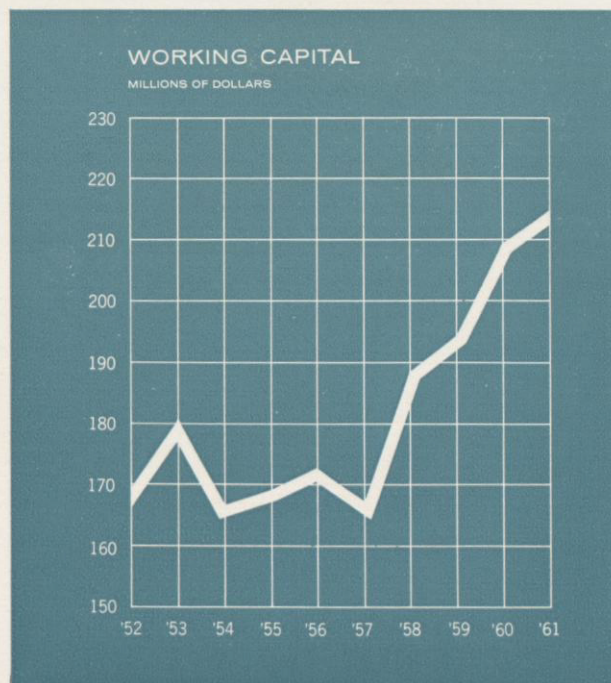
In Sealtest markets here we introduced "Prestige" French Ice Cream, high in quality and rich in flavor; and continued to bring out new flavors of Sealtest Ice Cream. Our Breyer's operation also presented its Regency French Ice Cream in a colorful, new plastic container. We likewise added Sealtest Lemonade, which was well-received in both American and Canadian markets. In addition, we developed a promising new packaging program for Sealtest Cottage Cheese, selling this popular product for the first time in envelopes for individual servings—four envelopes to the carton. New varieties, flavors, and packaging improvements were also introduced into the dairy specialties lines produced and distributed along the Eastern seaboard by our Breakstone Foods Division . . . Many of the above innovations, together with other new ideas developed last year for consumer markets around the world, are shown in the product photographs appearing in

the center spread of this Report, Pages 12-13.

— *For Food-Service Customers*, we also provided additional products in 1961, establishing a record volume of sales in this field, and developing new business with military commissaries, in-plant cafeterias and canteens, caterers, and vending machine operators. Many of our familiar food products—under the brands offered by Kraft, Sealtest, Breakstone's and Sugar Creek Creamery—were made available in larger-size containers for mass feeding; as well as in controlled portions for individual service to enable these eating establishments to reduce preparation costs and waste. Thus, by constant innovations designed to help food-service operators solve their problems, we strengthened our position in this great market.

— *For Commercial Customers*, we expanded our technical services to food processors and other manufacturers during the year. For example, the Kraft Foods Division, which serves many such customers, supplied the baking industry with an increasing tonnage of Edible Whey, a nutritious by-product of Cheese-making, which enhances the quality of bread, sweet rolls and cookies. In another area, this Division broadened its line of Animal Feed supplements, with a new product for colts and horses, and a new pet food mix.

Others of our Divisions whose output is designed almost entirely for other businesses and industries also continued to improve their products and services and to enter new markets. The Metro Glass Division met the changing demand for Glass Containers through engineering developments to make lighter, stronger bottles and jars, and by expanding and improving its production facilities. Metro now operates four large Glass plants in the most heavily industrialized



sections of the East and Mid-West, serving some of our own operations, as well as a broad range of other companies.

The Humko Products Division—which achieved new tonnage records in shipments of Edible Oils and Shortenings—also commenced the refining of Corn Oil for the first time, and supplied substantial amounts of this product to processors.

CHEMICAL PRODUCTS THROUGH RESEARCH

Last year our chemical operations, with the technical assistance of our Research and Development Division, created a number of new products and services for industry. Humko Products, through its chemical activity, brought out

several new grades of Fatty Acids and for the first time entered the industrial market for Nitrogen Derivatives, distributing these products under the Kemstrene trademark. This operation also built a new fractional distillation tower with facilities which will not only permit the manufacture of new products, but also help to maintain and improve the quality of all Fatty Acids sold under our Hystrene and Industrene brands. At the end of the year, more than 50 different grades of Fatty Acids were being produced and marketed by Humko which, through expanded sales activities, has steadily increased its business with the manufacturers of textiles, paints, cosmetics, waxes, lubricants, insecticides, drugs and many other everyday articles.

The Company's other chemical facility, which is operated by the Sealtest Foods Division under our Sheffield Chemical trademark, continued to develop its thriving Milk Derivatives business with food processors and the makers of pharmaceutical and biological products. An interesting development at its Norwich, N. Y. plant during the year involved efforts to meet the increased demand for Milk Proteins by the makers of breakfast foods and other high-quality cereal products.

FARM, COMMUNITY AND EMPLOYEE RELATIONS

The activities of National Dairy affect the lives of many people, including employees, producers and growers, distributors, food merchants and suppliers.

For the men and women of National Dairy, it was another good year. An average of 48,822 were employed in the Company's Divisions and Subsidiaries around the world. Payrolls for the

(Continued on page 14)



UNITED STATES



This Is National Dairy . . .

A business *is* what it *sells*. Thus, National Dairy is a composite of all the product lines which appear in the photographs on the accompanying pages. These products indicate the great and diversified food company we have become. They also symbolize the increasing scope of our services to the public.

While these photographs show only some of our principal consumer brands, they nevertheless encompass a total of 256 types and forms of food products. Some of these products are distributed primarily in the United States . . . Some of them are distributed both here and abroad . . . While those pictured on the inside right-hand page are found only in the markets of other countries.

Many of the brands illustrated here represent new products . . . Many are well-established, sought-after products which have been improved and made even more nutritious, tastier and more serviceable . . . Still others are products appearing in new, more attractive, handier, and more convenient packaging.

All the consumer products of National Dairy bear labels representing one of the Company's greatest assets—our trademarks. These include such familiar and respected names as Kraft . . . Sealtest . . . Breyer's . . . Breakstone's . . . Humko . . . Sugar Creek . . . and many other brand names which have become household words.

Turn Here





... A Great Name In Food

Our brands have constantly been supported and strengthened by scientific research and quality control . . . by excellent processing, manufacturing, and distribution facilities . . . and by effective, imaginative merchandising programs. Thus, year-by-year, National Dairy has grown to be a Great Name In Food.

In bringing its broad lines of food products to consumers—regionally, nationally and internationally—the Company:

—Operates over 200 processing and manufacturing plants and over 300 sales and distributing branches located in markets of the American, European and Australian continents . . . And from many of these facilities, exports to other lands around the globe.

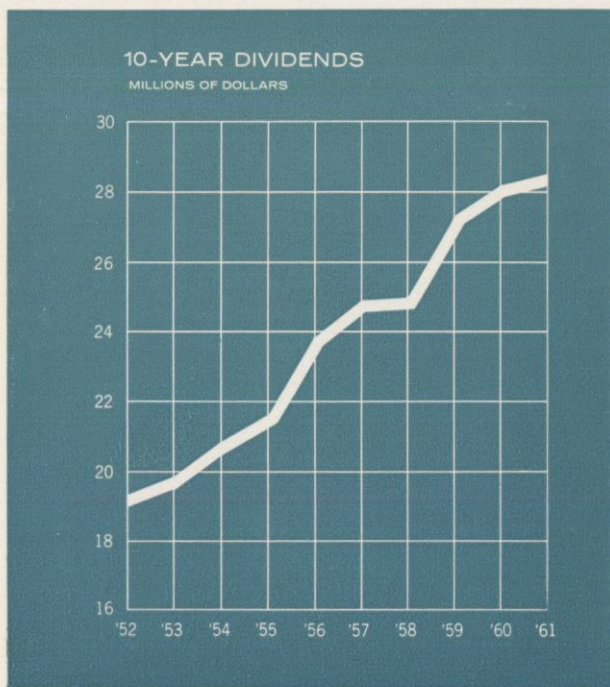
—Maintains a number of supplementary installations, including research and product control laboratories; warehouse facilities, and numerous receiving stations for materials.

—Operates one of the world's largest commercial motor vehicle fleets to move our products to market.

—Employs a large number of dedicated men and women to process and distribute our food products and promote their use.

—Maintains experimental kitchens; food information facilities; in-store dealer programs and other customer services, to provide continuous contact with the ultimate consumer—the housewife—whose wants and desires we must always satisfy.





(Continued from page 11)

year totaled a record \$272,159,000. Additional employment costs which were paid in whole or in part by National Dairy include programs covering pensions; life, sickness and accident insurance; workmen's compensation insurance; unemployment compensation; and social security benefits.

Other substantial funds generated by the business flowed during the year into American and Canadian farmlands and communities with our purchases of raw materials, supplies and services from many thousands of agricultural producers and local businesses.

Close cooperation by our fieldmen with farmers helped them to improve and market their output. At the same time, our high-quality products, combined with the skilled assistance we provided in

merchandising them, helped local food merchants to build their business.

In civic, as in economic affairs, our operations made an important contribution in 1961, as the Company's employees continued to unite with friends and neighbors to promote the best interests of their communities. Our employees demonstrated their good-neighborliness by serving on school boards, hospital councils and church committees; by taking part in drives for local health and charitable organizations; and by supporting the programs of a wide range of civic groups and service clubs.

Overseas, the employees of National Dairy—virtually all of whom are nationals of the countries where we operate—likewise contributed effectively to the public welfare. Thus, through a combination of payrolls, purchases, and community and civic services, the Company's activities are vital elements in the social and economic life of many countries.

The Company continued to defend its position in the three Federal Trade Commission proceedings and the antitrust case in Kansas City, which have been pending for several years. In addition to these and related cases, there are several Governmental investigations and also other litigation of a character usual for companies operating similar businesses. Further comments regarding the significance of legal proceedings appear in the Notes to the Consolidated Financial Statements, page 18.

On December 1, 1961, J. Huber Wetenhall, your President, became chief executive officer

of National Dairy, succeeding E. E. Stewart who retired from operations on that date.

Mr. Stewart retired as Chairman of the Board after a long and distinguished career which contributed greatly to the growth and success of the Company. His experience, judgment, and leadership have exerted wide influence over the years, not only in our business but in other areas of American industry. His contribution will long be felt, both inside and outside the Company.

Mr. Wetenhall, during his service with the Company, has carried many important responsibilities in National Dairy and in its operating Divisions. In more recent years, he served successively as Vice-President and Executive Vice-President; and, in 1959, he was elected as President of the Company. He has been a Director since 1955.

During 1961, two new Directors were elected by our stockholders to the Board. They were: Herbert Humphreys, Chairman of our Humko Products Division, of Memphis, Tenn.; and Emanuel M. Turner, President of our Metro Glass Division, of Jersey City, N. J. Both of these men have brought to our Board the benefit of their long business experience.

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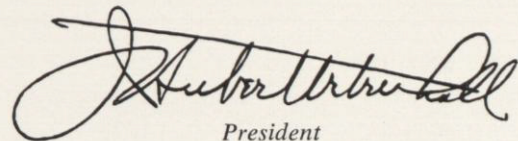
Last year also marked the retirement from your Board of P. P. Miller, who had been a Director since 1934. Mr. Miller was prominent for many years in our Milk and Ice Cream business, and played a major role in bringing these operations to their outstanding position in the field. He had been a Vice-President of the Corporation; and was former President of our Sealtest Foods Division.

* * * * *

I n 1962, we will continue to build our operations, our products, and our services on a foundation of decades of experience in Domestic and International business. Our organization is strong in trained manpower, and our operating management is sales-minded and profit-conscious.

We appreciate that National Dairy's growth is due to the working partnership that exists between the Company and its stockholders, employees, customers, distributors and suppliers. We thank all of you for your fine support and cooperation during the past year, and particularly express our grateful recognition to the thousands of loyal National Dairy employees around the world for their increasing efforts to improve all areas of the business.

By order of the Board of Directors.



President

March 1, 1962

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	<i>December 30</i> <u>1961</u>	<i>December 31</i> <u>1960</u>
CURRENT ASSETS:		
Cash	\$ 26,514,980	\$ 34,060,462
U. S. Government and other short-term securities at cost, not in excess of market	1,231,886	9,236,869
Notes and accounts receivable, less reserve	95,180,087	87,997,660
Inventories, at lower of average cost or market—		
Products and materials (See note)	240,692,069	204,945,701
Supplies	<u>21,504,744</u>	<u>19,641,347</u>
<i>Total Current Assets</i>	<u>\$385,123,766</u>	<u>\$355,882,039</u>
 MISCELLANEOUS INVESTMENTS, DEPOSITS AND RECEIV- ABLES (Less reserves)	 <u>\$ 6,509,658</u>	 <u>\$ 5,402,502</u>
 PROPERTY, PLANT & EQUIPMENT (Stated substantially at cost):		
Land	\$ 19,922,904	\$ 19,025,364
Buildings	199,678,723	185,802,436
Machinery and equipment	362,480,029	337,478,772
	<u>\$582,081,656</u>	<u>\$542,306,572</u>
Less—Reserve for depreciation	<u>264,282,817</u>	<u>244,203,957</u>
	<u>\$317,798,839</u>	<u>\$298,102,615</u>
 PREPAID AND DEFERRED ITEMS	 <u>\$ 4,186,478</u>	 <u>\$ 3,384,052</u>
 INTANGIBLES (See note)	 <u>\$ 12,554,656</u>	 <u>\$ 7,571,706</u>
	<u>\$726,173,397</u>	<u>\$670,342,914</u>

(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES

	<i>December 30</i> <u>1961</u>	<i>December 31</i> <u>1960</u>
CURRENT LIABILITIES:		
Notes payable	\$ 15,000,000	\$ None
Accounts payable and accrued liabilities	119,740,287	112,266,495
Provision for Federal and foreign taxes on income	35,440,716	32,166,765
Sinking fund requirements and Note due within one year, less long-term debt held in treasury (\$3,413,135 in 1961 and \$2,157,164 in 1960)	<u>485,893</u>	<u>1,644,836</u>
<i>Total Current Liabilities</i>	<u>\$170,666,896</u>	<u>\$146,078,096</u>
 LONG-TERM DEBT (See note)	 <u>\$ 81,808,500</u>	 <u>\$ 84,178,000</u>
 DEFERRED FEDERAL AND FOREIGN TAXES ON INCOME . .	 <u>\$ 10,341,592</u>	 <u>\$ 8,467,712</u>
 RESERVES FOR INSURANCE, ETC.	 <u>\$ 3,458,127</u>	 <u>\$ 3,033,097</u>
 MINORITY INTEREST IN SUBSIDIARY COMPANIES	 <u>\$ 1,443,194</u>	 <u>\$ 560,000</u>
 CONTINGENT LIABILITIES (See note)		
 CAPITAL STOCK AND SURPLUS:		
Common stock, \$5 par value (authorized 16,000,000 shares; issued and outstanding 14,302,362 shares at December 30, 1961 and 14,112,213 shares at December 31, 1960)	 \$ 71,511,810	 \$ 70,561,065
Capital surplus, per statement attached	33,450,429	25,647,394
Earned surplus, per statement attached (See note)	353,492,849	331,817,550
	<u>\$458,455,088</u>	<u>\$428,026,009</u>
	<u>\$726,173,397</u>	<u>\$670,342,914</u>

(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS

INCOME:	52 Weeks Ended Dec. 30, 1961	Year 1960
Net sales	\$1,790,834,487	\$1,667,176,223
Other income (See note)	7,135,814	5,899,813
Total	<u>\$1,797,970,301</u>	<u>\$1,673,076,036</u>
INCOME DEDUCTIONS:		
Cost of products	\$1,345,509,601	\$1,235,330,830
Delivery expense	168,076,691	158,835,529
Selling expense	116,022,932	117,292,497
General and administrative expense	60,807,125	54,501,689
Miscellaneous charges—net	3,429,142	2,431,590
Interest on long-term debt	2,598,234	2,736,641
Provision for Federal and foreign taxes on income	51,315,000	51,280,000
Total	<u>\$1,747,758,725</u>	<u>\$1,622,408,776</u>
NET PROFIT FOR THE YEAR	<u>\$ 50,211,576</u>	<u>\$ 50,667,260</u>

*The provision for depreciation charged to costs and expenses amounted in 1961 to \$34,378,059 and in 1960 to \$32,771,283.
(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . December 30, 1961

OTHER INCOME

Other income for the year 1961 includes profit of \$1,491,908 from the disposition in December, 1961 of certain property, plant and equipment subject to condemnation proceedings. After deduction of the applicable Federal tax on capital gains the resulting profit amounted to \$1,118,931.

INVENTORIES

Inventories of products and materials shown at December 31, 1960 were written down in the approximate amount of \$1,725,000 in order to give proper recognition to the effect on such inventories of the decline in the market price of cheese on January 27, 1961.

INTANGIBLES

Intangibles represent the excess of the purchase prices paid over the net book values of the tangible assets of certain businesses acquired since 1955. The Corporation does not now intend to amortize items carried in this account.

FOREIGN EXCHANGE

In the consolidated balance sheets at December 30, 1961 and December 31, 1960 (also in the combined condensed balance sheets of certain foreign subsidiaries shown on page 21 herein), current assets and liabilities of foreign subsidiaries are translated at the rates of exchange prevailing at the end of each year. All other assets and liabilities are translated generally at the rates prevailing at the time the assets were acquired or the liabilities incurred. The effect of fluctuations in exchange rates is reflected in profit and loss.

CONTINGENT LIABILITIES

The Company is defendant in various legal proceedings in which substantial amounts are involved. It is not feasible to predict or determine the outcome of these proceedings, the adjustments in operations which adverse decisions might require or the ultimate liabilities, if any, which might result. No provision has been made in the accompanying financial statements in respect of such contingencies.

NATIONAL DAIRY PRODUCTS CORPORATION AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED SURPLUS

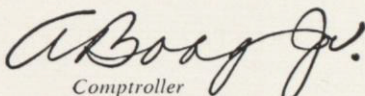
	<i>52 Weeks Ended December 30, 1961</i>	
	<u>Earned Surplus</u>	<u>Capital Surplus</u>
Balance at beginning of fiscal year	\$331,817,550	\$25,647,394
Net profit for the year	50,211,576	—
Excess of consideration received over par value of shares issued	—	7,803,035
	<u>\$382,029,126</u>	<u>\$33,450,429</u>
Dividends on common stock—\$2.00 per share	28,536,277	—
Balance at end of fiscal year	<u>\$353,492,849</u>	<u>\$33,450,429</u>

(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)

COMPTROLLER'S CERTIFICATE

The foregoing financial statements have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and domestic and foreign subsidiary companies as of December 30, 1961 and the consolidated operations for the year ended on that date.

New York, N. Y., March 1, 1962


Comptroller

EMPLOYEES' STOCK OPTION PLAN

Under the Employees' Stock Option Plan approved in 1952 and amended in 1958, there were 492,503 shares of the authorized and unissued common stock of the Company reserved at December 30, 1961, for sale to officers and other key employees. At that date 1,614 employees held options to purchase a total of 448,738 shares at prices ranging from \$25.975 to \$74.25 per share, with an aggregate purchase price of \$21,064,048, and 43,765 shares remained available for future grants. All options become exercisable in cumulative periodic installments extending over the terms of such options (generally ten years or to earlier retirement date), commencing not earlier than one year from date of grant. Options became exercisable during 1961 with respect to 71,513 shares having an aggregate purchase price of \$2,677,585. On October 5, 1961, options were granted to purchase 65,675 shares at \$74.25 per share. During the year 100,606 shares were issued under the Plan and the proceeds of \$3,382,030 were credited to the common stock and capital surplus accounts.

INCENTIVE COMPENSATION PLANS

Under year-to-year Incentive Compensation Plans of the domestic and foreign divisions, key employees earned approximately \$5,468,000 for 1961 and \$5,577,000 for 1960. In 1961 these plans covered 2,672 employees, the maximum earned by any employee approximating 1% of the total. No person participated in these plans during any period in which he was a director or an executive officer of the Company.

COMPANY PENSION PLANS

The Corporation has a noncontributory pension plan and a contributory retirement annuity plan for domestic employees, and its foreign subsidiaries also have pension plans of various types. The unfunded past service costs of such pension plans of the Corporation and its consolidated subsidiaries is estimated to be \$27,500,000 at December 30, 1961, and the estimated annual cost of such plans, including amortization of unfunded past service costs, is approximately \$7,300,000 for those of the eligible employees covered at that date. The Corporation also makes contributions to pension plans of certain unions representing domestic employees who have elected not to participate in Company plans.

(Continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS..Dec. 30, 1961 (cont'd)

LONG-TERM DEBT AND EARNED SURPLUS

The following tabulation excludes current sinking fund requirements and maturities shown in current liabilities and is after deducting in certain cases the excess of debentures held in treasury over current sinking fund requirements.

	<u>Dec. 30, 1961</u>	<u>Dec. 31, 1960</u>
<i>National Dairy Products Corporation</i>		
2¾ % Debentures due 1970	\$31,494,000	\$33,000,000
3 % Debentures due 1970	18,879,000	20,100,000
3¼ % Debentures due 1976	24,417,000	25,200,000
3¼ % Notes due \$250,000 annually in Canadian funds	none	250,000
<i>Foreign subsidiaries</i>		
5 % Debentures due 1975 of English subsidiary	3,920,000	4,060,000
5 % Mortgage Debentures due 1968 of Australian subsidiary	1,456,000	1,568,000
4 % Mortgage Bonds of Canadian subsidiary due 1966	1,642,500	—
Totals per Consolidated Balance Sheets	<u>\$81,808,500</u>	<u>\$84,178,000</u>

All of the issues of long-term debt shown above have sinking fund or prepayment requirements, the aggregate annual amounts of which total \$3,623,250 for each of the years 1963 and 1964.

Pursuant to the terms of the indentures under which the Corporation's 2¾ %, 3 % and 3¼ % Debentures are outstanding, \$42,510,000 of consolidated earned surplus was restricted at December 30, 1961 as to payments of cash dividends.

On March 1, 1962 the Board of Directors approved the filing of a Registration Statement with the Securities and Exchange Commission to register \$35,000,000 of 30 year sinking fund debentures which the Company proposes to issue when such registration becomes effective.

AUDITORS' OPINION

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF NATIONAL DAIRY PRODUCTS CORPORATION:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic and foreign subsidiary companies as of December 30, 1961, and the related statements of consolidated profit and loss and surplus for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the year 1960.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic and foreign subsidiary companies as of December 30, 1961, and the results of their operations for the 52 weeks then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y., March 1, 1962.

Arthur Andersen & Co.

NATIONAL DAIRY PRODUCTS CORPORATION

FOREIGN SUBSIDIARIES OTHER THAN CANADIAN

COMBINED CONDENSED BALANCE SHEETS

	December 30 1961	December 31 1960
Current assets	\$ 39,640,136	\$ 36,993,590
Property, plant and equipment, less reserve for depreciation . . .	28,340,378	24,299,167
Prepaid and deferred items, investments, etc.	695,952	394,729
	<u>\$ 68,676,466</u>	<u>\$ 61,687,486</u>
Current liabilities	\$ 24,987,694	\$ 18,133,396
Long-term debt	5,376,000	5,628,000
Reserves for insurance, etc.	1,604,500	1,418,601
	<u>\$ 31,968,194</u>	<u>\$ 25,179,997</u>
Net tangible assets	<u>\$ 36,708,272</u>	<u>\$ 36,507,489</u>

COMBINED CONDENSED STATEMENTS OF PROFIT AND LOSS

	52 Weeks Ended Dec. 30, 1961	Year 1960
Income:		
Net sales	\$140,147,926	\$120,233,888
Other income	1,124,261	504,545
Total	<u>\$141,272,187</u>	<u>\$120,738,433</u>
Income deductions:		
Cost of products	\$109,512,891	\$ 91,832,384
Delivery, selling, general and administrative expenses . . .	22,189,915	17,949,481
Interest on long-term debt	294,195	302,436
Provision for taxes on income	4,182,094	4,775,567
Total	<u>\$136,179,095</u>	<u>\$114,859,868</u>
Net profit	<u>\$ 5,093,092</u>	<u>\$ 5,878,565</u>
Dividends received by Company	<u>\$ 3,976,389</u>	<u>\$ 1,432,094</u>

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES*

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED ASSETS AND LIABILITIES

(All amounts are expressed in thousands)

	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952
WORKING CAPITAL										
CURRENT ASSETS										
Cash and marketable securities	\$ 27,747	\$ 43,297	\$ 62,498	\$ 61,936	\$ 73,253	\$ 73,470	\$ 94,386	\$115,719	\$131,711	\$ 81,378
Notes and accounts receivable (net)	95,180	87,998	78,710	76,456	65,841	65,948	55,613	49,231	50,733	50,534
Inventories	262,197	224,587	194,213	181,584	146,417	150,135	135,488	111,912	107,306	136,865
Total Current Assets	\$385,124	\$355,882	\$335,421	\$319,976	\$285,511	\$289,553	\$285,487	\$276,862	\$289,750	\$268,777
CURRENT LIABILITIES										
Notes payable	\$ 15,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Accounts payable and accruals	119,740	112,826	107,261	98,141	90,168	84,904	75,305	72,079	58,281	54,402
Federal and foreign taxes on income	35,441	32,167	32,579	32,433	24,968	28,897	38,617	36,334	49,729	42,777
Sinking fund requirements and Note due within one year, less long-term debt held in treasury	486	1,645	1,152	882	3,247	2,918	2,180	1,750	1,415	1,850
Total Current Liabilities	\$170,667	\$146,638	\$140,992	\$131,456	\$118,383	\$116,719	\$116,102	\$110,163	\$109,425	\$ 99,029
Working Capital	\$214,457	\$209,244	\$194,429	\$188,520	\$167,128	\$172,834	\$169,385	\$166,699	\$180,325	\$169,748
PROPERTY, PLANT & EQUIPMENT—NET	317,799	298,103	290,242	276,815	239,676	221,117	205,528	191,490	176,384	174,528
INVESTMENTS, OTHER ASSETS AND PREPAID ITEMS**	10,696	8,786	8,847	7,334	22,066	17,094	12,502	11,510	7,946	7,740
Total	\$542,952	\$516,133	\$493,518	\$472,669	\$428,870	\$411,045	\$387,415	\$369,699	\$364,655	\$352,016
LONG-TERM DEBT	\$ 81,808	\$ 84,178	\$ 87,886	\$ 91,673	\$ 88,900	\$ 92,150	\$ 95,400	\$ 98,650	\$101,400	\$103,850
RESERVES, ETC.	15,243	11,501	9,349	12,333	4,744	3,892	2,704	2,631	14,398	13,162
Total	\$ 97,051	\$ 95,679	\$ 97,235	\$104,006	\$ 93,644	\$ 96,042	\$ 98,104	\$101,281	\$115,798	\$117,012
Book Value of Common Stock**	\$445,901	\$420,454	\$396,283	\$368,663	\$335,226	\$315,003	\$289,311	\$268,418	\$248,857	\$235,004

NOTE: *Other foreign subsidiaries included with domestic and Canadian beginning in 1958.

**Excluding intangibles.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES*

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED PROFIT AND LOSS

(All amounts are expressed in thousands, except per share and other statistics)

INCOME	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952
Net sales	\$1,790,834	\$1,667,176	\$1,605,725	\$1,548,386	\$1,432,319	\$1,352,878	\$1,260,230	\$1,210,328	\$1,232,126	\$1,141,296
Other income	7,136	5,900	6,322	4,548	6,130	5,693	5,393	3,902	4,582	4,191
Total income	\$1,797,970	\$1,673,076	\$1,612,047	\$1,552,934	\$1,438,449	\$1,358,571	\$1,265,623	\$1,214,230	\$1,236,708	\$1,145,487
INCOME DEDUCTIONS										
Cost of products	\$1,345,510	\$1,235,331	\$1,188,277	\$1,139,179	\$1,052,909	\$986,071	\$910,490	\$874,950	\$912,586	\$852,988
Delivery expense	168,077	158,836	158,539	159,569	152,616	145,237	136,900	128,995	126,712	117,787
Selling expense	116,023	117,292	109,494	106,204	97,106	99,910	89,185	84,679	76,245	67,841
General and administrative expense	60,807	54,502	52,483	52,539	48,749	47,279	45,944	44,986	36,318	31,871
Miscellaneous charges—net	3,429	2,431	1,989	2,009	576	794	508	736	411	719
Interest on long-term debt	2,598	2,737	2,803	2,943	2,735	2,813	2,909	2,991	3,074	3,133
Federal and foreign taxes on income	51,315	51,280	49,100	45,035	39,700	34,750	39,340	39,500	50,525	43,349
Total income deductions	\$1,747,759	\$1,622,409	\$1,562,685	\$1,507,478	\$1,394,391	\$1,316,854	\$1,225,276	\$1,176,837	\$1,205,871	\$1,117,688
Net profit for the year	\$ 50,211	\$ 50,667	\$ 49,362	\$ 45,456	\$ 44,058	\$ 41,717	\$ 40,347	\$ 37,393	\$ 30,837	\$ 27,799

PAYMENTS

Dividends	\$ 28,536	\$ 28,177	\$ 27,317	\$ 24,973	\$ 24,892	\$ 23,844	\$ 21,601	\$ 20,840	\$ 19,853	\$ 19,316
Payroll	272,159	262,013	256,331	255,602	244,558	233,491	221,866	211,522	203,724	190,482
Taxes	72,087	71,490	66,938	61,502	54,373	49,708	53,029	52,333	62,758	54,668

PER SHARE OF COMMON STOCK†

Earnings transferred to earned surplus	\$ 3.51	\$ 3.59	\$ 3.51	\$ 3.27	\$ 3.18	\$ 3.02	\$ 2.98	\$ 2.77	\$ 2.31	\$ 2.11
Dividends	2.00	2.00	1.95	1.80	1.80	1.75	1.60	1.55	1.50	1.50
Taxes	5.04	5.07	4.76	4.43	3.93	3.60	3.91	3.88	4.71	4.15
Book value (excluding intangibles)	31.18	29.79	28.19	26.53	24.21	22.81	21.36	19.91	18.68	17.86

OTHER STATISTICS

Number of—										
Stockholders	69,993	69,940	69,708	68,681	68,364	66,478	64,841	63,177	62,318	63,205
Employees	48,822	47,943	48,809	50,482	46,332	46,496	45,905	45,733	45,274	44,405

NOTE: *Other foreign subsidiaries included with domestic and Canadian beginning in 1958.
†All prior years adjusted to give effect to the 100% stock dividend of September 15, 1954.

NATIONAL DAIRY PRODUCTS CORPORATION

OFFICERS

J. HUBER WETENHALL
President

ROBERT S. GORDON
Vice-President and Gen. Counsel

J. CLYDE LOFTIS
Vice-President

GEORGE H. RUTHERFORD
Vice-Pres. & Chr., Finance Comm.

C. R. ROBERTS
Vice-President

A. BOAG, JR.
Comptroller

A. S. ARONSON
Treasurer

JOS. L. CALIRI
Secretary

WM. E. NUESSE
Assistant General Counsel

ROBERT L. TALBOT
Assistant Treasurer

HOWARD L. MAURHOFF
Assistant Treasurer

PETER CAMPBELL, JR.
Assistant Comptroller

L. J. ZIMMERLEIN
Assistant Comptroller

ELIZABETH H. DREHER
Assistant Secretary

CATHARINE FOURNIER
Assistant Secretary

RAYMOND P. DENNETT
Assistant Secretary

OPERATING COMMITTEE

J. HUBER WETENHALL, *Chairman*

L. M. BECKER

DR. ARNOLD H. JOHNSON

J. H. PLATT

ROBERT S. GORDON

J. CLYDE LOFTIS

C. R. ROBERTS

GLENN GUNDELL

L. P. McCOUN

GEORGE H. RUTHERFORD

HERBERT HUMPHREYS

EMANUEL M. TERNER

Members of this committee are executives of National Dairy Products Corporation or of its divisions, and are designated by the Board of Directors.

Transfer Agent

MANUFACTURERS HANOVER TRUST COMPANY
New York, New York

Registrar

THE CHASE MANHATTAN BANK
New York, New York

Counsel

SULLIVAN & CROMWELL

Auditors

ARTHUR ANDERSEN & CO.



**NATIONAL DAIRY
PRODUCTS CORPORATION**

Divisions

KRAFT FOODS

SEALTEST FOODS

BREAKSTONE FOODS

HUMKO PRODUCTS

METRO GLASS

SUGAR CREEK CREAMERY

RESEARCH AND DEVELOPMENT

**NATIONAL DAIRY
PRODUCTS CORPORATION**
260 MADISON AVE. NEW YORK 16, N.Y.